

Message Text

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PAGE 01 EC BRU 06396 151333Z

53

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-01

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LAB-04 SIL-01 SAM-01 XMB-02 /091 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9284

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

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E.O. 11652: NA

TAGS: EFIN, EEC

SUBJECT: CONGRESSIONAL INTEREST IN RECIPROCITY IN FOREIGN BANK
ESTABLISHMENT

REFS: A. SECSTATE 157475

B. EC-A-391, DECEMBER 18, 1974 (NOTAL)

C. EC-A-105 (NOTAL)

D. EC BRUSSELS 2657 (NOTAL)

1. SUMMARY: EC COMMISSION OFFICIALS BELIEVE THAT FEDERAL
LICENSING WITHOUT RECIPROCITY ALONG THE LINES OF THE PROPOSED
FRB BILL COULD POSSIBLY ADVERSELY AFFECT US BANKING ACTIVITY
IN THE COMMUNITY. THEY WOULD PREFER FOR THE US TO DELAY
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PAGE 02 EC BRU 06396 151333Z

CONSIDERATION OF A COMPREHENSIVE REGULATION OF FOREIGN

BANKS OR AT LEAST TO INCLUDE IN ANY NEW LEGISLATION PROVISIONS FOR FUTURE EC-US BANKING ARRANGEMENTS BASED ON RECIPROCITY. END SUMMARY.

2. AS REPORTED IN REF C, THE EC COMMISSION'S DIRECTORATE FOR FINANCIAL INSTITUTIONS HAS COMMENTED ON THE POSSIBLE IMPACT OF THE FRB BILL ON FOREIGN BANKS. THE DIRECTORATE WOULD PREFER TO SEE THE BILL DELAYED UNTIL THE COMMUNITY HAS DRAWN UP ITS OWN VIEWS TOWARDS REGULATION OF THIRD COUNTRY BANKS IN THE EC. COMMISSION OFFICIALS CONCEDE THAT IT MAY BE SOMETIME BEFORE THE EC HAS A COMMON POSITION ON THIS ISSUE BUT SHOULD THE FRB BILL BECOME LAW, THEY ARE FEARFUL THAT IT COULD ADVERSELY AFFECT THE COMMISSION'S INTENTION TO OFFER THE SAME LIBERAL TREATMENT TO US BANKS AS WOULD BE OFFERED TO EC BANKS. COMMISSION OFFICIALS POINT OUT SEVERAL DISCRIMINATORY ELEMENTS IN THE FRB PROPOSAL THAT COULD IMPEDE SUCH LIBERAL TREATMENT.

3. THE COMMISSION NOTES THAT THE FRB PROPOSAL IS BASED ON THE CONCEPT OF NON-DISCRIMINATION, WHEREAS THE COMMUNITY WOULD LIKE TO ADOPT THE CONCEPT OF RECIPROCITY. COMMISSION OFFICIALS SUGGEST THAT THE FRG PROPOSAL MIGHT BE MODIFIED TO INCLUDE THE POSSIBILITY OF WORKING OUT FUTURE EC-US ARRANGEMENTS ON THE BASIS OF RECIPROCITY. ONCE A BASIC LAW SUCH AS THE FRB PROPOSAL IS PASSED, COMMISSION OFFICIALS ARE CONCERNED THAT IT WILL BE TEN OR MORE YEARS BEFORE THE CONGRESS WOULD BE PREPARED TO CONSIDER A NEW PROPOSAL. IN THE INTERIM, THE COMMUNITY MAY HAVE PREPARED ITS OWN FOREIGN BANKING LEGISLATION AND MAY WANT TO ENTER INTO NEGOTIATIONS WITH THE US AND OTHERS. THE AIM OF SUCH NEGOTIATIONS WOULD BE TO INTEGRATE THIRD COUNTRY BANKS FULLY INTO THE COMMUNITY. ON THE BASIS OF RECIPROCITY, COMMISSION OFFICIALS WANT TO PLACE EVERY BANK, WHEREEVER IT OPENS BRANCHES, UNDER THE RULES AND SURVEILLANCE OF ITS COUNTRY OF ORIGIN.

4. THE COMMISSION TAKES EXCEPTION WITH TWO PROVISIONS LIMITED OFFICIAL USE

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PAGE 03 EC BRU 06396 151333Z

OF THE BILL. BY MAKING IT MANDATORY THAT FOREIGN BANKS BECOME MEMBER OF THE FRB SYSTEM AND OF THE FDIC, FOREIGN BANKS ARE NOT GIVEN THE SAME TREATMENT AS US BANKS. THIS PROVISION COULD GIVE AMMUNITION TO ANY EC OR MEMBER STATE BANKING AUTHORITIES THAT MIGHT WANT TO IMPEDE A LIBERAL APPROACH TOWARD US BANKS OPERATING IN EUROPE. SECONDLY, THE GRAND-FATHERING PROVISIONS ARE AVAILABLE ONLY TO INSTITUTIONS

ALREADY ESTABLISHED IN THE US. CONSEQUENTLY THEY WOULD DISCRIMINATE AGAINST BANKS WANTING TO ENTER THE US IN THE FUTURE AND THEREBY COMPETITION WOULD BE DISTORTED.

5. COMMISSION OFFICIALS ARE ALSO CONCERNED THAT THE BILL REQUIRES A SERIES OF EXAMINATIONS FOR CERTAIN BANK LICENSES AND APPROVALS UNDER THE EDGE ACT, THE RESULTS OF WHICH ARE UNCLEAR. THE CRITERIA FOR SUCH EXAMINATIONS SHOULD BE MADE KNOWN. FOREIGN BANKS APPLYING FOR LICENSES, ESPECIALLY PARTNERSHIPS, MAY HAVE DIFFICULTIES IN OBTAINING CERTIFICATES OF AUTHORITY UNDER SECTION 18 OF THE BILL.

6. COMMISSION OFFICIALS CONCLUDE THAT THE FRB BILL COULD IN THE LONG RUN ADVERSELY AFFECT US BANKING ACTIVITY IN THE EC. THE COMMISSION WOULD LIKE TO ADOPT RECIPROCITY AS THE BASIS OF ITS FUTURE APPROACH TOWARD FOREIGN BANKS AND WOULD LIKE PROVISIONS FOR THIS APPROACH TO BE INCLUDED IN FUTURE LEGISLATION.

7. COMMENT: THE COMMISSION DIRECTORATE'S VIEWS DO NOT NECESSARILY REPRESENT THE VIEWS OF THE ENTIRE COMMISSION OR OF THE MEMBER STATES. THE COMMISSION HAS PROPOSED A DRAFT UMBRELLA DIRECTIVE WHICH AUTHORIZES ESTABLISHMENT OF A CONTACT COMMITTEE TO DRAW UP LEGISLATION TO REGULATE EC CREDIT INSTITUTIONS (SEE REF B). ONE OF THE FIRST PRIORITIES OF THE COMMITTEE WOULD BE TO CONSIDER REGULATIONS OF FOREIGN BANKS IN THE EC. THE MEMBER STATES ARE NOT IN AGREEMENT ON THIS DRAFT DIRECTIVE AND IT WILL LIMITED OFFICIAL USE

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PAGE 04 EC BRU 06396 151333Z

LIKELY BE AT LEAST 6 TO 12 MONTHS BEFORE IT IS ADOPTED, IF THEN. IT WILL TAKE AT LEAST SEVERAL ADDITIONAL YEARS BEFORE THE EC IS READY TO AGREE TO REGULATE FOREIGN BANKS. THUS, IT IS DIFFICULT TO JUDGE HOW SOON, IF EVER, THE EC WILL BE ABLE TO ADOPT A COMMON APPROACH TOWARD FOREIGN BANKS. END COMMENT.
GREENWALD

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